

Compliance with Auditor Independence Requirements

- Two overarching principles.
 1. Audit Organizations should not provide nonaudit services that involve performing management functions or making management decisions.
 2. Audit organizations should not audit their own work or provide nonaudit services in situations where the nonaudit services are significant/material to the subject matter of audits.
- What routine activities can auditors perform that do not impair their independence and are not considered performing management functions or making management decisions?
 1. Providing routine advice
 2. Answering technical questions
 3. Providing training
 4. Providing tools and methodologies that can be used by management.
- Audit organizations may perform nonaudit services as long as they do not conflict with the two overarching principles. (Primarily, they cannot audit their own work) Nonaudit services which can be performed include, but are not limited to:
 1. Providing basic accounting assistance limited to services such as preparing draft financial statements that are based on management's chart of accounts.
 2. Maintaining depreciation schedules for which management has determined the depreciation method.
 3. Providing payroll services limited to services such as computing pay amounts based on entity maintained time records, salary rates, and deductions.
- If an audit organization performs nonaudit services that that do not conflict with the two overarching principles, then the audit organization and audited entity must comply with the following safeguards.
 1. The audit organization should document its consideration of the nonaudit services and include rationale for why the services do not violate the two overarching principles. This item is key and could be included as a deliverable in the contract for services.
 2. The audit organization should establish and document an understanding with the audited entity regarding the objective, scope or work, and product or deliverables of the nonaudit services. This should be a general practice in any written contract for services.
 3. The audited entity should comply with the following:
 - a. Designate a management-level individual for overseeing the nonaudit services.
 - b. Monitor the nonaudit services to ensure it meets management objectives.
 - c. Make decisions involving management functions related to the nonaudit services and accept responsibility for the decisions.
 - d. Evaluate the adequacy of the services performed and any findings that result.
- The audit organization should preclude personnel who provided the nonaudit services from planning, conducting, or reviewing audit work related to the nonaudit services under the overarching principle that auditors cannot audit their own work. This item could be included in the contract for nonaudit services to help ensure compliance by the audit organization.

Prepared on April 18, 2002 by:
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